

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Shipping Corporation Limited for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2. Non-Compliance with Sri Lanka Accounting Standards

Audit Observation	Management Comment	Recommendation
(a) If it is probable that future economic benefits will flow to the entity or the cost of the related asset can be measured reliably through certain intangible asset, although the cost incurred to acquire that intangible asset should be recognized as an asset, according to Paragraphs 9 and 21 of Sri Lanka Accounting Standard No. 38, the amount of Rs. 4.5 million currently incurred by the Company to be agreed to acquire the planned	The computerized ship management system has been recognized as an expense in the audited financial year 2020/21. Actions are being taken to recognize this as an asset in the year 2024/2025 .	The Management should take steps to identify and account for intangible assets as per Sri Lanka Accounting Standards 38 .

maintenance system of the computerized ship management system, staff module and HSEQ module to the Company on 10 November 2020 had been accounted for as an expense in the 2020/21 financial year without accounting for under intangible assets in the statement of financial position. Therefore, intangible assets had been understated by Rs. 4.5 million and the expenditure for that year had been overstated by Rs. 4.5 million.

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| <p>(b) Although the cost of Rs. 1.5 million incurred in relation to the fence constructed around the new land owned by the Company, which was completed on 23 August 2023, was included in the work- in- progress, the assets had been understated by that amount during the year under review due to it had not been capitalized even by 31 March 2024 . Further, although an asset should be depreciated from the time it is first put into use, according to Paragraph 55 of Sri Lanka Accounting Standard No. 16, the depreciation for the year had not been accounted for.</p> | <p>It has been listed as a temporary construction in the procurement procedure for the construction of the fence, in the technical report, in the Tender Board, in the invoice and in the report of the committee appointed to inspect the fence and it is a temporary fence built using sheets. It is not practical to reliably measure the useful life when depreciating as per Paragraphs 50 and 57 of LKAS 16 . Therefore, this temporary fence has not been identified as an asset.</p> | <p>The Management should take actions to capitalize assets accounted for under work- in- progress as per Sri Lanka Accounting Standards 16 .</p> |
| <p>(c) When a company measures the value of its property, plant and equipment after it has identified them as assets, the cost method or the amortization method should be used in accordance with Paragraph 29 of Sri Lanka Accounting Standard No. 16 and it should be disclosed in the accounting policies. However, although the Company had disclosed in its financial statements that it measures property, plant and equipment using the cost method, the market value</p> | <p>The Company can use the cost or amortization method in accordance with Section 29 of Sri Lanka Accounting Standard No. 16 and accordingly, it has been stated in 3.4 of the accounting policy statement of the Company that the land is maintained on a cost basis. This land has been revalued by a chartered assessor with the approval of Management as well in accordance with Paragraph 32 of Sri Lanka Accounting Standard No. 16 .</p> | <p>The Management should take actions to accurately detect under Subsequent Measurement if an item of property, plant and equipment is measured at revalued amount after initial recognition as per Sri Lanka Accounting Standards 16 .</p> |

had been based on when accounting for the land of the Company valued at Rs. 225.7 million .

(d)	When an entity classifies financial assets, its fair value (Fair value through other comprehensive income) should be based on according to Paragraph 4.1.2 (A) of Sri Lanka Financial Reporting Standard No. 09 and although the Company should value its financial assets (quoted investment) based on fair value, as per Section 4.1.4 of Sri Lanka Financial Reporting Standard No. 09 (SLFRS 9), the value of financial assets had been overstated by Rs. 9.9 million due to failure of doing so.	When we valued the financial assets (Quoted Investment) we did not disclose the Annual Reports (2023/24) of Mercantile Shipping Company PLC. Therefore, the value of the financial assets of Mercantile Shipping Company has been calculated based on the market value prevailing at that time and we have taken steps to correct it after its Annual Reports were published.	The Management should take actions to accurately value and account for financial assets in accordance with Sri Lanka Accounting Standard 09 .
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1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) A difference of 8.1 million had been seen between the confirmed loan balance from a debtor of the Company and the debtor balance of the Company.	Although the balance payable of M/S Mur Shipping Ltd. as at 31/03/24 was confirmed as United States Dollar (USD) 58,505.99, it should be clarified that the invoices submitted upon notification by the ship chartering department are as recorded in the invoices.	The Management should take actions to maintain proper coordination between the each division of the institution and to make necessary corrections after comparing the debtor balances with the balance confirmation.
(b) In adjusting of impairment for trade receivable, a rational basis or formal approval for the value of Rs. 161.2 million allocated for individual institutions and Rs. 1,096.6 million allocated collectively had not been obtained and presented to the audit.	Impairments for Debits by the institution have been made since the year 2013/14 and it was done on the advice of the audit firms that have been audited since that year and on the advice of senior management.	Steps should be taken to make impairment adjustments under rational basis and formal approval.

1.5.4 Going Concern of the Company

Audit Observation	Management Comment	Recommendation
<p>The profit for the year under review was Rs. 763.2 million as per the financial statements as at 31 March 2024 and accumulated loss was Rs. 9,979.2 million. Further, the minus value of net assets of the Company as at 31 March 2024 was Rs. 8,358.2 million. Due to showing a profit in the year under review, the previous year's loss had decreased by 141.10 per cent and although the negative balance of net assets of the Company had decreased by 9.25 per cent compared to the previous year, the uncertainty regarding the going concern of the Company had remained continuously accordingly. The main reason for the accumulated losses in the year under review and previous years was the exchange loss arising from the conversion of United States Dollar (USD) into Sri Lankan Rupees. Even though the Company had proposed measures at the Special General Meeting (EGM) held on 24 March 2023 to address this situation, actions had not been taken to implement minimizing of the exchange loss.</p>	<p>The status of the projects proposed at the Extraordinary General Meetings is as follows.</p> <ul style="list-style-type: none"> i. Operation of a floating tanker service Delayed due to lack of initial capital ii. Promoting of registration under the Sri Lankan flag- The approval from the Merchant Shipping Secretariat has not been received. iii. Construction of a boat for passenger and cargo transportation to Norochcholai - Although basic studies have been carried out, the project was stalled due to the lack of suitable business activities to deploy the boat during the monsoon season. iv. Operation of a passenger and cargo vessel between designated Indian ports / a port from Kankesanthurai – A Memorandum of Understanding has been entered into with an applicant. v. Implementation of a container feeder service between Sri Lanka and 	<p>The Management should take actions to take necessary measures to overcome uncertainty about the going concern of the Company.</p>

Bangladesh - Although the two countries have proposed a standard operating procedure before implementing the project, the concurrence of Bangladeshi side has not yet been received to this.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
The trade receivable of the Company is Rs. 1,744.6 million and no action whatsoever had been taken to recover the trade receivables valued at Rs. 1,104.9 million which has not been recoverable out of that, for more than 6 years .	The report including the actions taken by the Debt Recovery Committee has been submitted to the Audit Committee. Accordingly, arrangements have been made to obtain approval to write off loan balances exceeding 10 years as "bad debts".	The Management should take actions to follow a formal internal control system to collect money from debtors .

1.7 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Section 16.2 of the National Audit Act No. 19 of 2018 and Section 6.6 of the Operations Manual of the State Enterprises Circular No. 01/2021 dated 16 November 2021	Although the Company is required to submit the Draft Annual Report along with the financial statements to the Auditor General within 60 days of the end of the accounting year, the financial statements of the Company had been submitted to the audit with a delay of 63 days.	The deadline for submitting the Draft Annual Report to the Auditor General has passed due to the problem of employee vacancies at the Ceylon Shipping Corporation Ltd.	Actions should be taken to submit financial statements to audit by the Company during the relevant period after the end of the accounting year as per the instructions of the National Audit Act and the Public Enterprises Circular.

1.8 Non-compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
Although a company is required to pay its income tax on the date of completion of six months from the end of the assessment year as per Sub-section 82 (c) ii of the Inland Revenue Act No. 24 of 2017, due to the Company not having paid income tax of Rs. 380.6 million for the year 2023/24 within the due date, a sum of Rs. 38 million and Rs. 17 million had to be paid as fine and interest respectively.	The tax amount still to be paid to the Inland Revenue Department as at 26 September 2024 is Rs. 380,633,541 .	Actions should be taken to pay income taxes related to the year within the prescribed time after the end of the assessment year.

2. Financial Review

2.1 Financial Results

The operational result for the year under review was a profit of Rs. 1,174,795,701 and the loss as against to that for the preceding year was Rs. 433,605,111. Accordingly, a growth of Rs. 1,608,400,812 was observed accordingly in the financial result. The decrease of direct operating expenses in the year under review by Rs. 786,289,596 that is 24 per cent and financial expenses by Rs. 2,412,224,054, that is per cent 55 per cent and increase of other income by Rs. 1,244,494,425, or 149 per cent had mainly affected to this growth.

3. Operating Review

3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) According to the provisions of Public Finance Circular No. 415 dated 06 May 2005 and Public Finance Circular Letter No. 03 dated 18 February 2016, when calling tenders by all government institutions that import goods by ship, separate bids should be invited for the cost of goods excluding transportation and the cost of goods and transportation and it should be	Due to the existing of global economic recession, adverse conditions in the country and the world, including the Covid pandemic, the number of cases transported through the Corporation decreased numerically in the financial years 2020/21, 2021/22 and 2022/23 . Further, the Shipping Corporation has taken various measures to increase revenue by conducting awareness	The Management should take actions to take necessary measures to expand their business activities by acting in accordance with the Public Finance Circular.

considered whether it would be cost-effective to import goods through the Ceylon Shipping Corporation on a cash on delivery basis. Accordingly, if it is more profitable to import goods through the Ceylon Shipping Corporation, a clause should be included in the Letter of Credit stating that “the goods shall be shipped on a vessel of the Ceylon Shipping Corporation or a vessel nominated by the Shipping Corporation under a bill of lading on a payable at destination basis”. Accordingly, although there was potential to increase the profitability of the Company through the transportation of imported goods in the public sector, the number of government institutions and the number of occasions that imported goods through Ceylon Shipping Corporation during the 5 years from 01 April 2019 to 31 March 2024 were relatively decreasing, with 28 and 2357 in 2019/20, 23 and 1925 in 2020/21, 24 and 1300 in 2021/22, 27 and 821 in 2022/23 and 23 and 1008 in 2023/24 respectively.

- (b) The Company should issue Waiver Notices in cases where the transportation price is higher than the supplier's price in accordance with the provisions of Public Finance Circular No. 415 dated 06 May 2005 and the Company had issued 319 Waiver Notices in 2019/20, 298 in 2020/21, 185 in 2021/22, 118 in 2022/23 and 81 in 2023/24, in contrary to the provisions of the circular because of requesting Waiver Notices after shipment, emergency purchases, procurement awarded on CIF prices, and other reasons.

campaigns at a significant number of government institutions and steps have been taken to inform Ministries, Departments and Statutory Bodies through State and Finance Circular 415 No. MPS/P&D/02/04/08 Vol ii and the letter of the Secretary to the Ministry of Ports, Shipping and Civil Aviation dated 29 November 2022. Accordingly, when considering full containers for Import/export of public sector goods in the year 2023/24 the number of import/export operations has increased to 995 units, less than container load to 10,820.19 units and 1,008 times. Further, the physical performance related to the import/export of goods in the public sector from 01 April to 31 December 2024 is approximately 750 units of goods and 1,999.842 units of goods less than container load and the number of times goods were imported/exported has been 714 .

The majority of the total number of Waiver Notices issued by the Corporation are issued under the category of Requesting Waiver Notices after Shipment. When the transportation of goods has been carried out at the discretion of the supplier in the importation process, Waiver Notices have had to be issued for various reasons including obtaining the necessary documents and Letters of Credit for those goods from the bank that issued them, and clearing them without incurring late fees. The total number of Waiver Notices issued in the 2023/24 financial year has been reduced from 185 to 134 compared to the previous year and it has dropped by 27% .

Necessary actions should be taken by the Management to act in accordance with the Public Finance Circular.

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| <p>(c) Although there is potential to increase profitability by securing a greater percentage of government imports through a competitive shipping rate system, due to the transportation cost of the Company being higher than the shipping costs of suppliers involved in the import, a number of 174, 163, 150, 67 and 53 Waiver Notices respectively had been issued within 5 years from 2019/2020 to 2023/24 .</p> | <p>After shipping, in cases where freight rates of import cargoes cannot be matched, that is, unrealistic freight rates are presented in their bid documents, emergency purchases, purchases made on preconditions under special credit procedures, and tenders are awarded to suppliers who participated in the procurement process stating only the CIF value, efforts are always made to draw the attention of government institutions to the most appropriate procedures for future purchases, indicating how to proceed accurately according to the Public Finance Circular.</p> | <p>A formal pricing methodology should be followed for the transfer of goods to transport company under the intense competitive environment in the maritime sector.</p> |
| <p>(d) A number of 328 fixed asset items valued at Rs. 9.8 million purchased by the Company between 1993-2015 were missing and this was not mentioned in the 2023/24 Board of Survey Report. Further, those items were fully depreciated by 31 March 2024 and necessary measures had not been taken by the Management in respect of misplaced or disposed fixed assets by reviewing fixed assets periodically.</p> | <p>A report prepared to take actions regarding these goods has been submitted to the Audit Committee of the Ceylon Shipping Corporation Ltd. and a letter has also been sent to the Department of Public Enterprises, inquiring about the measures that can be taken in this regard, based on the instructions received.</p> | <p>Necessary actions should be taken by reviewing fixed assets periodically by the Management and in respect of misplaced or disposed fixed assets.</p> |

3.2 Procurement Management

Audit Observation	Management Comment	Recommendation
Contracts had been entered into for USD 102,800 to implement a computer-based ship management system of the Company for the ships for a period of 06 years with a private company by the Company on 10 November 2020. It had been planned to implement this system in 3 phases during the first year and it has been spent Rs. 4.5 million, including Rs. 2.9 million (USD 15,400) for advance and Rs. 1.6	Although the private company should extend the performance security to pay the USD 15,400 which is payable, since the respective Company did not do it, a problematic situation has occurred. The procurement module is still in the preparation stage and the preparation of that module has been delayed until the 20% payment is complete. In	The Management should take necessary steps to actively utilize this computer system for the future operations of the Company.

million (USD 7,700) for system design acceptance and the system has been installed for 02 ships and the planned maintenance system, staff module and HSEQ module have been introduced and even though 3 years and 8 months had elapsed, this computer system had not been properly utilized by the end of the year under review.

addition to the technical staff, training has been provided for the crew of the ships and data for PMS (Planned Maintenance System), data for Crewing Module, and data for HSEQ Module have been entered as required. This Computer Based Ship Management System (CBSMS) is currently being put into practical use and it is also pointed out that the money paid is not a futile expense.

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendation
The number of approved staff of the Company as at 31 March 2024 was 133 and the actual staff was 94, including 01 acting position. Accordingly, there were a total of 41 vacant posts, including 08 senior level posts, 04 tertiary level posts, 25 secondary level posts and 04 primary level posts and that was 30 per cent of the total approved staff.	The actual staff as at 31 March , 2024 was 94, and it has increased to 109 by now.	Actions should be taken to obtain formal approvals and recruit staff and optimally utilize existing staff

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Management Comment	Recommendation
The Company had not prepared a Corporate Plan with strategic plans and submitted it to the Treasury 15 days before the start of the next year in accordance with Paragraph 2.3 of the Guidelines for Public Enterprises Circular No. 01/2021 dated 16 November 2021. Further, the last five-year Corporate Plan 2018 - 2023 was not updated from year to year, focusing on achieving the objectives of the Corporate Plan, or updated every	The Corporate Plan with strategic plans of the Ceylon Shipping Corporation Ltd. has now been provided to the relevant parties and the Government Audit Division.	The Corporate Plan with strategic plans should be prepared and submitted to the Treasury as per Public Enterprises Circulars and actions should also be taken to update annually.

year in line with changes in the business environment. Further, the Board of Directors should periodically assess and ensure the effectiveness of the implementation of strategic plans and although corrective actions should have been taken if necessary, such actions had not been taken.

4.2 Annual Action Plan

Audit Observation	Management Comment	Recommendation
<p>According to the Action Plan for the year under review, although the charter rental income of the ships owned by the Company, Agency & Address Commission income, container transportation income and clearance of goods from the customs and distribution income were expected to be Rs. 4,312 million, Rs. 692 million, Rs. 608 million and Rs. 35 million respectively, the income according to the Performance Report were Rs. 2,476 million, Rs. 548 million, Rs. 568 million and Rs. 79 million respectively. Accordingly, the percentage difference between expected income and actual income was observed to be a decrease of 43 per cent, a decrease of 21 per cent, a decrease of 7 per cent, and an increase of 125.71 per cent, respectively. Accordingly, it was observed that the Management had not realistically estimated the revenue.</p>	<p>As the and Agency & Address Commission income government and private imports have declined sharply due to the fiscal policies implemented by the government because of the Company has not received charter rental income and coal transportation during the coal transportation year 2023/2024, as a result of the economic impact of the unexpected decrease in international sea charter rental income for the year 2023/2024, container transport revenue has also fallen below expectations and because effective strategies were used in finding new business opportunities in 2023/2024, goods clearance from customs and distribution revenue has exceeded expectations.</p>	<p>The Management should take actions to systematically prepare the Action Plan, monitor progress and take necessary corrective actions to achieve the desired objectives of the organization.</p>